

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of)	
)	
2000 Biennial Regulatory Review)	CC Docket No. 00-199
Comprehensive Review of the Accounting)		
Requirements and ARMIS Reporting)	
Requirements for Incumbent Local Exchange)		
Carriers: Phase 2 and Phase 3)	

WORLDCOM REPLY COMMENTS

All non-ILEC commenters agree that the Commission cannot eliminate its Part 32 and Part 64 accounting rules, or the ARMIS reporting requirements, either at this time or by a date certain. Commenters also agree that the public interest would be best served by declaring a moratorium on accounting rule changes, in order to allow the ILECs to implement, and the Commission to evaluate, the accounting rule changes adopted in the Phase 2 Order.¹

The ILECs, on the other hand, take the extreme position the Commission should eliminate its accounting rules within three years.² They suggest that GAAP accounting and SEC reporting, supplemented by special studies on an “as needed” basis, would be sufficient to meet the regulatory needs of the Commission and the states.

¹See, e.g., Wisconsin Comments at 4; Sprint Comments at 3-4; AT&T Comments at 1-2.

²ILEC Coalition Comments at 6.

The ILECs' position is without merit. As long as the ILECs remain dominant carriers, i.e., carriers with market power, comprehensive regulatory oversight is necessary to preclude the ILECs' from exercising that market power. And the Commission cannot regulate effectively without detailed and accurate information about the financial performance of the ILECs' regulated operations. Even under price cap regulation, and even in those MSAs where the ILECs have been granted Phase II pricing flexibility, the Commission and ILEC customers require detailed and accurate financial information that is reported on a periodic basis in order to assess the reasonableness of ILEC rates and, consequently, to determine whether to conduct an investigation pursuant to Section 204 or 205 or file a complaint pursuant to Section 208.

GAAP accounting and SEC reports alone simply do not provide the financial information that the Commission needs to regulate effectively. As WorldCom has previously explained:³

- SEC financial reports do not allow the Commission or the ILECs' customers to distinguish between the ILECs' regulated and nonregulated operations, or to distinguish between the ILECs' dominant local operations and their nondominant interLATA operations. The ILECs' parent companies are diversified corporations whose reported financial results are not sufficiently disaggregated to permit the Commission to obtain information concerning their dominant carrier operations.

³WorldCom Reply Comments, CC Docket No. 00-199, March 14, 2001.

- SEC reports based on GAAP would not permit the Commission to distinguish interstate from intrastate costs.
- GAAP alone does not ensure consistency and uniformity in ILEC accounting practices. For example, as the Commission discussed in the GAAP Order, “the GAAP definition of materiality leaves too much to the discretion of parties not bound by our public interest responsibilities to be viable in a regulatory accounting scheme.”⁴ This lack of consistency would impair the Commission’s ability to monitor ILEC performance using benchmarking.
- As the Commission has recently confirmed, GAAP does not prevent the ILECs from booking excessive depreciation expense.⁵ Consistent and reasonable depreciation practices are particularly significant in a capital-intensive industry such as telecommunications.
- SEC reports provide no detail concerning the costs associated with different network components, e.g., they do not distinguish loop costs from other costs. This level of detail continues to be relevant in assessing the reasonableness of rates charged for

⁴Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles, Report and Order, 102 FCC 2d 964, 986 (1985).

⁵In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers, Report and Order, 15 FCC Rcd 242, ¶ 42 (1999).

particular interstate rate elements. The lack of detail in SEC reports concerning the embedded costs of particular network components or overhead functions would also impair the Commission's ability to evaluate forward-looking cost studies related to interconnection and universal service.

Special data requests cannot substitute effectively for the current program of ARMIS reporting. First, the Commission and ILEC customers would have no way to monitor ILEC performance on an ongoing basis. Second, the ILECs would no doubt respond to Commission data requests with the claim that it would be impossibly burdensome and time-consuming to produce the requested information. In practice, the ILECs would provide only the information that they elected to provide. Third, reliance on ad hoc data requests "could impair [the Commission's] ability to perform meaningful trend analysis."⁶ Fourth, without the context provided by a historical data series, the Commission would have only a limited ability to assess the accuracy of any information provided by the ILECs in response to an ad hoc data request.

The ILECs' rhetoric about the alleged burdens imposed by the existing accounting and reporting rules is nothing more than a smokescreen for ILEC efforts to reduce regulatory oversight. As dominant carriers, the ILECs' overriding objective is to reduce or, preferably, eliminate any regulatory oversight that precludes them from exercising their market power. One of the best ways for the ILECs to reduce regulatory oversight is to deprive regulators of accurate and comprehensive information about the ILECs' financial

⁶2000 Biennial Regulatory Review, Report and Order in CC Docket No. 00-199, 97-212, and 80-286, CC Docket Nos. 00-199, 97-212, 80-286, released November 5, 2001 (Phase 2 Order) at ¶ 46.

performance, by replacing the current system with a system in which the ILECs provide regulators with only the information that they elect to provide.

The Commission has, in the Phase 2 Order, already made wide-ranging changes to its accounting rules in order to align those rules with recent changes in the price cap system and with the universal service requirements of the 1996 Act.⁷ No further changes should be undertaken as long as the ILECs remain dominant carriers.

Respectfully submitted,
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s/

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⁷Wisconsin Comments at 3 (“In Phases 1 and 2 of this proceeding, the FCC already has taken a significant amount of action to address accounting and reporting requirements that were based on the needs of rate base, rate of return regulation.”)

